

Employees' Retirement System

Hybrid Plan Summary



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HYBRID PLAN OVERVIEW

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- Legislation 2004: Act 179 (SB 779, SD2, HD2, CD1)
- Effective Date: July 1, 2006
- Covered Employees
 - All new general employees, teachers, State and county department heads and deputies, sewer workers, adult corrections officers, water safety officers, emergency medical technicians and visa employees hired on or after July 1, 2006.
 - Members in service on February 28, 2006, who elect by March 31, 2006 to transfer to the new Hybrid Plan (Class H).
 - Members hired in March, April, May, and June 2006 who elect within 30 days to transfer to the new Hybrid Plan.
 - Vested Contributory Plan (Class A) members who return to service after June 30, 2006 who elect within 30 days to transfer to the new Hybrid Plan.
 - Nonvested Class A and all Class C members who return to service after June 30, 2006 will be enrolled in the new Hybrid Plan.
- Excluded Contributory Plan Employee Groups
 - Class A: judges, elective officers and legislative officers (3-½% benefit and 7.8% contribution rate).
 - Class A: certain investigators, adult corrections officers and water safety officers ("25 and out" early retirement, 2-½% benefit and 12.2% contribution rate).
 - Class B: police officers and firefighters ("25 and out" early retirement, 2-½% benefit and 12.2% contribution rate).
 - Class B: general employees who were members on July 1, 1957 and who elected not to be covered by the Social Security Act.

COMPARISON OF RETIREMENT PLAN PROVISIONS

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	Hybrid Plan (Class H)	Noncontributory Plan (Class C)	Contributory Plan (Class A and B)
Employee Contributions (% of compensation)	<ul style="list-style-type: none"> • 6% for general employees and teachers • 9.75% for sewer workers, water safety officers and emergency medical technicians 	None	<ul style="list-style-type: none"> • 7.8% for employees electing to remain in the Contributory Plan, elected/legislative officers and judges • 12.2% for police officers, firefighters, and certain investigators
Normal Retirement			
Eligibility	<p>General employees and teachers</p> <ul style="list-style-type: none"> • Age 62 and 5 years credited service, OR • Age 55 and 30 years credited service <p>Sewer workers/water safety officers/emergency medical technicians</p> <ul style="list-style-type: none"> • Age 62 and 5 years credited service, OR • Any age with 25 years credited in occupation, of which the last 5 years must be in that capacity 	<p>General employees and teachers</p> <ul style="list-style-type: none"> • Age 62 and 10 years credited service, OR • Age 55 and 30 years credited service <p>Sewer workers/water safety officers/emergency medical technicians</p> <ul style="list-style-type: none"> • Age 62 and 10 years credited service OR • Any age with 25 years credited in occupation, of which the last 5 years must be in that capacity 	<p>General employees and teachers</p> <ul style="list-style-type: none"> • Age 55 and 5 years credited service <p>Elected/legislative officers</p> <ul style="list-style-type: none"> • Age 55 and 5 years credited service OR • Any age with 10 years of service <p>Police officers, firefighters, and certain investigators</p> <ul style="list-style-type: none"> • Age 55 and 5 years credited service OR • Any age with 25 years credited in occupation, of which the last 5 years must be in that capacity
Benefit	2% of AFC times years of Class H service (split formula for nonconverted Class C service at 1.25%)	1.25% of AFC times years of service	<p>General employees and teachers</p> <ul style="list-style-type: none"> • 2% of AFC times years of service <p>Elected/legislative officers and judges</p> <ul style="list-style-type: none"> • 3-½% of AFC times years of service <p>Police officers, firefighters, and certain investigators</p> <ul style="list-style-type: none"> • 2-½% of AFC times years of service

COMPARISON OF RETIREMENT PLAN PROVISIONS

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	Hybrid Plan (Class H)	Noncontributory Plan (Class C)	Contributory Plan (Class A and B)
Early Retirement			
Eligibility	Age 55 with 20 years credited service	Age 55 and 20 years credited service	Any age and 25 years credited service
Benefit	5% reduction for each year under age 62	6% reduction for each year under age 62	5% reduction for each year under age 55, plus 4% per year under age 50
Example of Normal Retirement Assumptions: <ul style="list-style-type: none"> • General employee • Age 62 • 20 years of service • \$3,000 monthly AFC Monthly Benefit:	$\begin{matrix} \$1,200 \\ (2\% \times \$3,000 \times 20 \text{ years}) \end{matrix}$	$\begin{matrix} \$750 \\ (1.25\% \times \$3,000 \times 20 \text{ years}) \end{matrix}$	$\begin{matrix} \$1,200 \\ (2\% \times \$3,000 \times 20 \text{ years}) \end{matrix}$
Example of Early Retirement Assumptions: <ul style="list-style-type: none"> • General employee • Age 55 • 20 years of service • \$3,000 monthly AFC Monthly Benefit:	$\begin{matrix} \$780 \\ (\$1,200 \times 65\%) \end{matrix}$	$\begin{matrix} \$435 \\ (\$750 \times 58\%) \end{matrix}$	$\begin{matrix} \$1,200 \\ (\text{No reduction,} \\ \text{eligible for normal retirement}) \end{matrix}$

COMPARISON OF RETIREMENT PLAN PROVISIONS

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	Hybrid Plan (Class H)	Noncontributory Plan (Class C)	Contributory Plan (Class A and B)
Annuity Savings Account			
Interest	4.5% per annum on employee contributions and accrued interest	Not applicable	4.5% per annum on employee contributions and accrued interest
If employee terminates with less than 5 years of service ; requests refund; and forfeits future retirement benefit	Return of the member's contributions and accrued interest	Not applicable	Return of the member's contributions and accrued interest
If employee terminates with 5 or more years of service ; requests refund; and forfeits future retirement benefit	Return of hypothetical account balance consisting of: <ul style="list-style-type: none"> • Actual member contributions for salaries earned as a Class H member and accrued interest, plus • Additional 50% of the member's contributions for salaries earned as a Class H member and accrued interest, and • Actual member contributions for Class H membership service purchases, Class C service upgrades, Class A balance transfers and accrued interest 	Not applicable	Return of the member's contributions and accrued interest
If employee terminates with 5 or more years of service ; does not request refund; and <u>dies before filing for refund or retirement</u>	Return of hypothetical account balance	Not applicable	Return of the member's contributions and accrued interest

COMPARISON OF RETIREMENT PLAN PROVISIONS

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	Hybrid Plan (Class H)	Noncontributory Plan (Class C)	Contributory Plan (Class A and B)
Vesting			
Requirements	5 years credited service and contributions left in the ERS	10 years credited service	5 years credited service and contributions left in the ERS
Benefits	Accrued maximum allowance payable at age 62	Accrued maximum allowance payable at age 65	Accrued maximum allowance payable at age 55
Ordinary Disability			
Eligibility	10 years credited service	10 years credited service	10 years credited service
Benefit	2% of AFC times years of Class H service, unreduced for age (split formula for nonconverted Class C service @1.25%)	1.25% of AFC times years of service, unreduced for age	1.75% of AFC times years of service, unreduced for age
Minimum Benefit	25% of AFC	12.5% of AFC	30% of AFC
Service-Connected Disability (due to accident on the job)			
Eligibility	Any age or credited service	Any age or credited service	Any age or credited service
Benefit	35% of AFC unreduced for age, plus refund of member's contributions and accrued interest	35% of AFC unreduced for age (For accidents on or after July 1, 2004)	50% of AFC unreduced for age, plus return of member's contributions and accrued interest

COMPARISON OF RETIREMENT PLAN PROVISIONS

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	Hybrid Plan (Class H)	Noncontributory Plan (Class C)	Contributory Plan (Class A and B)
Ordinary Death			
Eligibility	Active employee at time of death	Active employee at time of death with at least 10 years credited service	Active employee at time of death
Benefit	<ul style="list-style-type: none"> Return of member's contributions and accrued interest to designated beneficiary if credited with less than 5 years of service, or Hypothetical account balance to designated beneficiary if credited with 5 or more years of service, or Option 3 (50% Joint Survivor) lifetime monthly benefit if member was not eligible for retirement at the time of death, credited with at least 10 years of service, and one beneficiary designated (benefit calculated using the ordinary disability retirement formula), or Option 2 (100% Joint Survivor) lifetime monthly benefit if member was eligible for service retirement at the time of death, and one beneficiary designated 	<ul style="list-style-type: none"> Monthly benefit equal to a percentage of member's accrued maximum allowance unreduced for age: <ul style="list-style-type: none"> 50% to surviving spouse or reciprocal beneficiary until remarriage or re-entry into new reciprocal beneficiary relationship, and 10% to surviving dependent children up to age 18 (aggregate benefit for all children cannot exceed 20%), <p>If there is no surviving spouse or reciprocal beneficiary, 20% to surviving dependent children up to age 18 (aggregate benefit for all children cannot exceed 40%), or</p> Option B (100% Joint Survivor) lifetime monthly benefit for surviving spouse or reciprocal beneficiary if member was eligible for service retirement at the time of death 	<ul style="list-style-type: none"> Return of member's contributions and accrued interest to designated beneficiary if credited with less than 1 year of service, or Return of member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death to designated beneficiary if credited with more than 1 year of service, or Option 3 (50% Joint Survivor) lifetime monthly benefit if member was not eligible for retirement at the time of death, credited with at least 10 years of service, and one beneficiary designated (benefit calculated using the ordinary disability retirement formula), or Option 2 (100% Joint Survivor) lifetime monthly benefit if member was eligible for service retirement at the time of death and one beneficiary designated

COMPARISON OF RETIREMENT PLAN PROVISIONS

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	Hybrid Plan (Class H)	Noncontributory Plan (Class C)	Contributory Plan (Class A and B)
Service-Connected Death (due to accident on the job)			
Eligibility	Any age or service	Any age or service	Any age or service
Benefit	<ul style="list-style-type: none"> Return of member's contributions, and accrued interest plus monthly benefit equal to 50% of AFC to surviving spouse or reciprocal beneficiary (until remarriage or re-entry into a new reciprocal beneficiary relationship) If there is no surviving spouse or reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents will be eligible for a monthly benefit If none of the above, the ordinary death benefit shall be payable to the designated beneficiary 	<ul style="list-style-type: none"> Monthly benefit equal to 30% of AFC to surviving spouse or reciprocal beneficiary (until remarriage or re-entry into a new reciprocal beneficiary relationship) Additional benefits payable to surviving dependent children (up to age 18) If none of the above, no benefit payable 	<ul style="list-style-type: none"> Return of member's contributions, and accrued interest plus a monthly benefit equal to 50% of AFC to surviving spouse or reciprocal beneficiary (until remarriage or re-entry into a new reciprocal beneficiary relationship) If there is no surviving spouse or reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents will be eligible for a monthly benefit If none of the above, the ordinary death benefit shall be payable to the designated beneficiary
Death After Filing an Application and Within One Year of Retirement	Designated beneficiary may elect to receive the survivor benefit for the option selected by the member or the ordinary death benefit (lump sum payment or Option 2 survivor benefit)	Designated beneficiary may elect to receive the survivor benefit for the option selected by the member or the ordinary death benefit (Option B survivor benefit)	Designated beneficiary may elect to receive the survivor benefit for the option selected by the member or the ordinary death benefit (lump sum payment or Option 2 survivor benefit)

COMPARISON OF RETIREMENT PLAN PROVISIONS

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	Hybrid Plan (Class H)	Noncontributory Plan (Class C)	Contributory Plan (Class A and B)
Retirement Options	<ul style="list-style-type: none"> • Maximum Allowance • Option 1 (Insurance Reserve) • Option 2 (100% Joint Survivor) • Option 3 (50% Joint Survivor) • Option 4 (Partial Refund)* • Option 5 (Full Refund) <p>* Nontaxable amount or 50%</p> <p>Must have at least 10 years of credited service to qualify for a refund option.</p> <p>Pop-up feature for survivor Option 2, Option 3, and certain Option 4 variations. Benefit for the retiree converts to the Maximum Allowance or the corresponding Option 4 variation upon the death of the designated beneficiary.</p>	<ul style="list-style-type: none"> • Maximum Allowance • Option A (50% Joint Survivor) • Option B (100% Joint Survivor) • Option C (10 Year Guarantee) <p>Pop-up feature for survivor Option A and Option B. Benefit for the retiree converts to the Maximum Allowance upon the death of the designated beneficiary.</p>	<ul style="list-style-type: none"> • Maximum Allowance • Option 1 (Insurance Reserve) • Option 2 (100% Joint Survivor) • Option 3 (50% Joint Survivor) • Option 4 (Partial Refund)* • Option 5 (Full Refund) <p>* Nontaxable amount, 50% or 75%</p> <p>Must have at least 10 years of credited service to qualify for a refund option.</p> <p>Pop-up feature for survivor Option 2, Option 3, and certain Option 4 variations. Benefit for the retiree converts to the Maximum Allowance or the corresponding Option 4 variation upon the death of the designated beneficiary.</p>
Post Retirement Benefit	Annual 2.5% increase based on original pension (not compounded)	Annual 2.5% increase based on original pension (not compounded)	Annual 2.5% increase based on original pension (not compounded)

OTHER FEATURES OF THE HYBRID PLAN

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- Benefit formula for transferring Contributory Plan (Class A) members
 - All Class A service will be converted to Hybrid Plan (Class H) service upon transfer.
 - 2% benefit formula for all service.
- Benefit formula for transferring Noncontributory Plan (Class C) members.
 - Benefit for Class C members who transfer to Class H will be based on a split formula.
 - Class C service prior to July 1, 2006 @ 1.25% plus Class H service from July 1, 2006 @ 2%.

Example:

Class C service to June 30, 2006:	20 years x 1.25% = 25 %
Class H service from July 1, 2006:	5 years x 2% = <u>10 %</u>
Split benefit formula:	35 %

$35\% \times \$1,000 \text{ (monthly AFC)} = \$350 \text{ monthly pension}$

- Option to convert Noncontributory Plan service to Hybrid Plan service.
 - ERS tax attorneys have stated that federal tax issues must be resolved and federal legislation may be required before conversion of Noncontributory Plan service is allowed. A private letter ruling from the Internal Revenue Service has been requested to address specific tax issues and the ERS is supporting federal legislation that will facilitate the conversion of Noncontributory Plan service from 1.25% to the 2% benefit formula in the Hybrid Plan. A response from the Internal Revenue Service and action by Congress are still pending.
 - If the federal tax issues are resolved fully and favorably:
 - Members in service on June 30, 2006 who transfer to the Hybrid Plan may convert all or a portion of their Class C service by paying the full actuarial cost for the service to be converted.
 - The member's cost to convert noncontributory service to the Hybrid Plan will be based on the member's age and monthly base pay on June 30, 2006; and the years of Class C service to be converted.
 - Employer pick-up provisions to defer federal income taxes will apply to payments made by payroll deduction.
 - Members who return to service after June 30, 2006 will not have the option to convert their Class C service.